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UNICEF management response to the annual report of the Office of Internal Audit and Investigations for 2016

Summary

The present report is submitted to the Executive Board in accordance with several decisions, the most recent being decision 2016/8. It presents the management response of UNICEF to the annual report of the Office of Internal Audit and Investigations for 2016 (E/ICEF/2017/AB/L.2).

A status update on the implementation of agreed audit actions that remained open for 18 months or more at the end of 2016 is presented in the annex.

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Contents

		Page
I.	Introduction	3
II.	Public disclosure of internal audit reports	4
III.	Management actions and plans to address the overall findings	4
IV.	Management actions and plans to address the recommendations of country office audits	9
V.	Management actions and plans to address the recommendations regarding headquarters and systems audits, advisory services, and inter-agency audits	11
VI.	Management actions to address the findings of investigations	13
VII.	Management actions to address the concluding observations in the UNICEF Audit Advisory Committee annual report for 2016	15
Annex		
	Progress update on audit recommendations that remained unresolved for more than 18 months as of 31 December 2016	17

I. Introduction

1. This report has been prepared by the management of UNICEF in response to the Office of Internal Audit and Investigations (OIAI) 2016 annual report to the Executive Board.

2. Management is pleased to note that the OIAI assurance summary and opinion for 2016 is that the adequacy and effectiveness of the UNICEF framework of governance, risk management and controls was generally satisfactory during 2016. This is the same as the opinion issued by OIAI related to the framework of governance, risk management and controls in 2015. Management continues to recognize that there is scope for further improvement and is committed to further enhancing policies, procedures, systems, staff practices and performance-monitoring mechanisms to assure appropriate governance, risk management and control practices throughout UNICEF. This management response describes the actions that management has taken to address the key issues identified in the audits and investigations undertaken by OIAI in 2016, as summarized in that office's annual report.

3. The management of UNICEF is committed to having an effective internal audit and investigations function, and to having OIAI carry out its activities in accordance with its Charter. Management notes that in 2016 OIAI filled one position for an auditor with a staff member who had formerly served as the chief of a UNICEF field office. The inclusion of individuals with UNICEF field experience provides important organizational awareness within OIAI, which serves to strengthen its audit approaches.

4. Management continues to appreciate the detailed quarterly reporting by OIAI on the implementation status of its annual workplan and on the follow-up to agreed audit actions, both of which are provided to management and to the UNICEF Audit Advisory Committee (AAC). This quarterly reporting helps management to systematically monitor the implementation of the agreed audit actions. In July 2016, the Deputy Executive Director for Management assigned responsibility for monitoring the status of open audit recommendations (internal and external audits) to the Director, Division of Financial and Administrative Management (DFAM). As noted in this report, in 2016, UNICEF made further improvements in the implementation of timely actions to address internal audit recommendations, leading to their closure by OIAI.

5. Management continues to appreciate the OIAI audit approach, which includes the participation of operations staff in selected aspects of some country office audits. In 2016, a total of 10 operations staff assisted in internal audits of country offices other than their own. Such participation strengthens knowledge exchange between offices, and staff understanding of the functioning and assessment of internal controls through application of the professional discipline of internal audit.

6. UNICEF continues to welcome the valuable contribution of the AAC in reviewing and providing general guidance on OIAI workplans and reports. Management has considered the advice provided by the AAC in its annual report for 2016 (available on the Executive Board website) on the assessment of the quality of OIAI performance, and in the development of management actions to further strengthen governance, risk management and control at UNICEF.

7. Management notes that 22 internal audit reports of UNICEF activities were issued in 2016, with 69 high-priority actions out of a total of 304 actions agreed between OIAI and UNICEF management. Management also notes that a further 13 reports started in 2016 were at various stages of completion as of 31 December 2016.

8. Management continues to appreciate the advisory services provided by OIAI, including the one advisory report issued in 2016 to the Private Fundraising and Partnerships Division (PFP), which has noted the valuable contribution of the advice.

9. Management notes that OIAI remains *generally compliant* with both the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors, and the Uniform Principles and Guidelines for Investigations, based on the independent quality assurance review conducted in 2013, and the confirmation by the AAC in 2016 that OIAI had addressed the agreed improvement actions recommended in the 2013 review. Management has been informed by OIAI that the next quality assurance review by a qualified external independent reviewer will be conducted in 2018, which is in conformity with the standard of conducting such a review at least every five years.

II. Public disclosure of internal audit reports

10. Pursuant to Executive Board decision 2012/13, all internal audit reports are subject to public disclosure. The same decision provides for the Executive Director and the Member States to request the Director of OIAI to redact or withhold reports under certain conditions. Of the 22 audit reports issued in 2016, management notes that 11 were publicly disclosed on the UNICEF website, www.unicef.org/auditandinvestigation/index_65818.html by 31 March 2017, as were all of the 2014 audit reports that had not been disclosed by the end of 2015. In 2016, at the request of the Executive Director, one audit report was withheld from public release as it pertains to information technology security. Management notes that as 50 per cent of the audit reports issued by OIAI in 2016 were released in the fourth quarter, by March 2017 the established disclosure process had not yet been completed for these audits.

11. Management notes that all disclosed audit reports can also be accessed through the UNICEF Transparency Portal, http://open.unicef.org/, which contains a wide range of information on UNICEF performance. Management also takes this opportunity to report that, in 2016, UNICEF was publicly rated as third among more than 46 assessed bilateral and multilateral development institutions for the fulfilment of the transparency standards established by the International Aid Transparency Initiative.[1]

III. Management actions and plans to address the overall findings

12. The 2016 OIAI annual report lists five audit actions that remained open for more than 18 months as of 31 December 2016, and notes the marked improvement compared to the end of 2015 when 18 actions remained open for more than 18 months. The office has reported to management that three of the actions that remained open at the end of 2016 had been closed by 15 March 2017. A summary of the progress made in addressing the two remaining open actions is contained in the annex to the present report.

13. UNICEF management notes that of the 22 audit reports of UNICEF activities issued in 2016, 4 had an overall "unqualified" rating (indicating fully satisfactory controls), which is 18 per cent of all issued reports, up from 13 per cent of all issued reports in 2015; and 13 had a "moderately-qualified" rating, which is 59 per cent of all issued reports, essentially the same as the 58 per cent of all reported audits in 2015. In its annual report, OIAI notes that "'unqualified' or 'moderately-qualified'

[1] *See*: Publish What You Fund, 2016 Aid Transparency Index, http://ati.publishwhatyoufund.org/.

(satisfactory) audit ratings signal to management that controls and processes are generally established and functioning as intended."

14. However, management notes with particular concern that two audits received an adverse rating in 2016 compared to no audits with this rating in 2015. In 2016, three audits received a strongly-qualified rating as compared to 11 with this rating in 2015. The Executive Director continued the practice of addressing any office with a strongly-qualified or adverse rating by writing to each concerned head of office and his or her supervisor to emphasize the criticality of the audit findings, the urgency of acting on the agreed remedial actions, and the importance of learning and improvement going forward.

15. Management appreciates the sustained attention by OIAI to offices that receive adverse audit ratings. Starting from 2016, this has included on-site follow-up reviews on the implementation of agreed actions in these offices. A follow-up visit to the Iraq Country Office was completed in 2016, and a follow-up visit to the Chad Country Office is planned for 2017.

16. Of the 22 audit reports of UNICEF activities issued in 2016, 63 per cent of all agreed actions were in three risk areas: results-based management and reporting; supply and logistics; and governance and accountability. These three areas also accounted for 64 per cent of all high-priority actions. Result-based management and reporting accounted for 35 per cent of all high-priority actions, a significant decrease from 48 per cent in 2015. High-priority actions related to supply and logistics decreased from 24 per cent of all high-priority actions in 2015 to 19 per cent in 2016.

17. In 2016, OIAI reported 25 agreed audit actions related to human resources and ethical behaviour and 19 agreed actions related to funding and external stakeholder relations. The office has reported to management that country/area offices have taken actions that have led to the closure of all but one agreed action related to unethical behaviour and funds mobilization that were due for action by 15 March 2017.

18. Management notes that in 2016, OIAI again considers the policies and procedures of UNICEF to be generally appropriate to manage the risks in country office governance, programme management and operational support. Management also acknowledges the OIAI analysis of the underlying reasons for identified weaknesses largely to be compliance gaps in some offices.

19. The UNICEF global control environment was markedly strengthened by the end of 2016 as master data management, invoice processing, payments, human resources administration and payroll are now processed for all offices through the Global Shared Services Centre (GSSC) in Budapest. The consolidation of these functions to the GSSC reduces the risk of non-compliance in country offices in a number of areas. An external assessment conducted by a global consulting firm in 2016 found the GSSC controls to be in line with industry best practices in all areas. This centralization provides greater visibility of transaction processing across the organization, which advances the capacity of UNICEF to assess and achieve further efficiencies in the processing of financial transactions.

20. In 2016, the Field Results Group (FRG) assessed the OIAI audit findings from 2014 and 2015 to better understand the underlying reasons for weak field office compliance with established procedures. This assessment influenced the group's actions in 2016 and 2017 for UNICEF, strengthened staff learning and office performance monitoring, and is contributing to the development of headquarters and regional office management plans for 2018-2021. A selection of the most important UNICEF actions from 2016 that were completed in 2016 and the first quarter of 2017,

and that will continue to be implemented in 2017, is presented in the following section.

Results-based management and reporting

21. Management acknowledges that results-based management and reporting includes the largest percentage of agreed actions in country office audit reports issued from 2013 to 2015, and again in 2016.

22. In 2016, UNICEF continued to make progress to strengthen guidance, staff skills and computer applications to further improve results-based management and reporting. Attention to these areas has continued in 2017.

23. In October 2015, programme strategy notes were introduced into the process for developing new country programmes to strengthen the articulation of theories of change that describe how planned outcome and output results will be achieved, among other things. The year 2016 was the first year in which strategy notes were completed, and all 24 country programmes developed that year included strategy notes in the programme development process. An independent assessment of the strategy notes conducted in the fourth quarter of 2016 found that 73 per cent met quality standards for defining theories of change and for clarity of programme indicators. Based on this assessment, as well as feedback from country and regional offices, the strategy note guidance was revised and good practice examples from 2016 were issued to support the offices that are developing strategy notes in 2017.

24. UNICEF is working with other agencies to revise the guidance on UNDAF development to better articulate the United Nations contribution to the achievement of the Sustainable Development Goals, as prioritized by national Governments. The revised UNDAF guidance, which is expected to be released by mid-2017, will complement the UNICEF strategy notes to further strengthen the results focus and capacity to demonstrate the United Nations system's value-added in programme countries.

25. The UNICEF results-based management learning programme for 2015 to 2017 advanced as planned in 2016. More than 3,000 staff members were reached through online modules (that are publicly available for use by partners and others), and face-to-face training held in all regions, under the leadership of each regional office. Results-based management learning sessions were held during the global network meetings for programme technical specialists, to reinforce skills and awareness of accountabilities among headquarters and regional office staff for planning, achieving and demonstrating results for children. A reference handbook that reinforces the online and face-to-face learning modules will be released by mid-2017, at which time UNICEF results-based management materials will also be available in French and Spanish.

26. Results-based management training is continuing in 2017, with the aim of reaching an additional 2,000 staff. A mechanism will be established in 2017 to assess the impact of the organization's major push to strengthen staff skills in this area.

27. A key focus of the learning programme is skills strengthening for the development of theories of change and results-based budgeting. In 2017, UNICEF will introduce a budget formulation computer application and associated guidance, to strengthen the estimation of the resources required to achieve programme results and to assess the value-for-money considerations of programmes that were developed using the budget formulation tools.

28. UNICEF continues to strengthen programming practices and computer applications for the harmonized approach to cash transfers (HACT). In 2016, several HACT e-courses were launched for staff and partners related to planning, using and

reporting on the use of UNICEF-provided programme funds. In 2016, more than 7,500 staff and 3,000 partners completed HACT e-courses. In 2016, UNICEF led inter-agency efforts to simplify and improve assessments of partners' programming and management capacity before providing HACT and for auditing the use of released funds.

29. In 2016, UNICEF made important advances in the development and use of practical guidance and computer applications to support results-based management in field offices, and to monitor performance at regional and headquarters levels. These actions include the following, as well as those reported in the section on Governance and Accountability below.

(a) **Results Assessment Module (RAM):** Refinements were introduced at the end of 2016 to simplify and improve the quality of outcome and output result performance reporting. Sixteen country offices tested a revised donor report format that links to RAM reporting to improve the efficiency of report development and the quality of reports. The revised donor reporting format will be issued in 2017, accompanied by examples of quality donor reporting that demonstrates the specific contributions of UNICEF to the achievement of results for children.

(b) **Country Office Performance Scorecard:** Launched in 2016, the Country Office Performance Scorecard facilitates accountability for monitoring office performance and timely action to address performance that falls below organizational standards. The scorecard for each office includes indicators in five performance areas: programme performance; financial management; people management; partnership management; and quality assurance. Performance data is referenced to established UNICEF standards, an office's previous performance, and the current performance of similar offices (budget size, country income group, and emergency response type). Scorecards will be developed for regional offices and headquarters divisions in 2017. The scorecard is a component of the UNICEF inSight system, which is available to all staff through the UNICEF intranet.

(c) **Standard outcome and output indicators:** Initially developed in 2015 and revised in 2016, the quality and use of standard indicators is making further advances in 2017 with the preparation of the Strategic Plan, 2018-2021 and simplified reporting facilities as part of RAM. The standard indicators are reducing the burden on country offices to develop high-quality programme performance indicators and easing the need for headquarters to undertake global aggregation and reporting on UNICEF performance. At the end of 2016, 97 per cent of country offices were using the standard indicators.

(d) **The eTools suite of applications** is being developed and rolled out to simplify office processes related to workplanning, partnership management, in-country travel and programme monitoring. In 2017, a total of 46 large and medium-sized country offices will be supported to use the eTools applications, and plans are under way to have the applications available for use by all offices by the start of 2018.

Governance and accountability

30. In 2016, UNICEF made notable advances in strengthening the procedures that define key accountabilities and the systems that record and monitor their fulfilment. These advances also directly strengthened the organization's application of results-based management.

31. In early 2016, UNICEF established a new online staff performance planning and assessment system called Achieve. The system was introduced with learning materials and orientation sessions that will continue in 2017. It seeks to improve the

dialogue and documentation between staff members and their supervisors in planning, implementing and assessing performance. Achieve expressly links an individual's performance to the UNICEF outcome results of the office where they work. A new administrative instruction to all staff, issued in January 2017 (CF/AI/2011-001 Amend. 2), includes linking staff salary within-grade step increments to documented achievement of performance.

32. The Division of Financial and Administrative Management (DFAM) is leading efforts to put in place an organizational regulatory framework that strengthens governance for the systematic oversight, management and development of the policy, procedure and guidance that shape the way UNICEF does business. A procedure on the regulatory framework was issued in June 2016 (DFAM Policy 1 Supplement 4), allowing for the standardization of policies and procedures across the organization. A regulatory framework library has been indexed and will be launched on a single platform that will provide staff members with "one-stop" access to all UNICEF regulatory content. Accountability is being strengthened through the procurement of governance, risk and compliance tools that will enable more effective risk management with continuous controls monitoring, and a systemic process for the collection of exceptions to procedures.

33. In 2016, FRG issued revised guidance to country offices that sharpens the terms of reference of the country management teams — including the accountability to monitor the performance of all other country office statutory and advisory committees — and strengthens the results-focus of annual office management plans by requiring each office to establish priority results to be achieved in the year and to articulate how each result will be achieved. Key performance indicators were standardized for all country offices and incorporated into the Country Office Performance Scorecard to simplify performance monitoring in individual offices and facilitate comparative assessments of performance across offices. The annual performance goals and assessment of Country Office Representatives in Achieve include reference to the office's programme and management performance profiled in the scorecard.

Supply and logistics

34. In 2016, the Supply Division continued its staff training programme with attention paid to procurement and contracting, two areas for which OIAI reported the most common audit findings within the area of supply and logistics. Six service contracting workshops were held with participation of field staff from the East Asia and the Pacific region (EAPR), Middle East and North Africa region (MENA), West and Central Africa region (WCAR), and several headquarters locations. An e-learning course on service contracting included more than 360 participants from 108 offices. In MENA, 35 field staff completed a course on planning and managing construction projects. In 2017, a procurement e-learning course customized to UNICEF procedures and multiple field office contexts will be launched.

35. The Supply Division also continued to refine procedures, guidance and functionality in VISION (the UNICEF enterprise resource planning system), with attention paid in 2016 to more robust assurance that contracts are signed before work begins and strengthened monitoring of the status of procurement and construction actions and payments. In 2016, the Supply Division completed a major review of the global vendor master records of service and supply vendors that are used by all UNICEF offices.

IV. Management actions and plans to address the recommendations of country office audits

A. Overview

36. UNICEF management appreciates the continued attention given to governance, programme management and operational support in the audits of country offices, as well as the findings reported by OIAI. UNICEF management notes that, in 2016, OIAI continued the positive practice of including in each audit report a plan developed by the country/area office (with the support and oversight of the regional office) and agreed with OIAI, which specifies who is responsible to take each action, and the date by which each action is planned to be completed.

37. Management notes that all of the audit recommendations issued to country/area offices in 2015 are closed. Among all of the country/area office audits issued in 2016 for which implementation reports were due before 15 March 2017, OIAI reports that 69 per cent of all agreed actions had been closed by that date.

38. The OIAI annual report notes that 248 actions, of which 57 were rated as high-priority, were issued in the 18 audit reports of country/area offices during 2016. Management notes the 2 per cent decrease in the total share of actions considered to be high-priority from 2015 to 2016.

39. Management notes that two of the five country offices that received adverse or strongly-qualified audit opinions were operating in a humanitarian programming environment: the office in Iraq, which is in a Level 3 emergency environment; and the office in Chad, which is in a Level 2 emergency environment. The office in Guinea was operating in a Level 3 emergency environment in 2015, and the 2016 audit included actions taken during that year. The office in Afghanistan received a strongly-qualified audit opinion. As at 15 March 2017, OIAI had closed 65 per cent of the actions issued to those country/area offices that were due to be reported to OIAI by that date.

40. To support country and regional offices operating in humanitarian environments, UNICEF maintains an emergency response team (ERT) mechanism, which involves staff based in the Office of Emergency Programmes and several other headquarters divisions who are temporarily deployed to the field to augment existing capacity when needed. In 2016, ERT missions were undertaken to 17 offices, providing more than 1,800 person-days of support in areas including emergency programme management, operations, human resources, programme monitoring and technical support in all programme areas. UNICEF also has a well-established practice of providing temporary surge staff support from other field offices to offices engaged in humanitarian action. The benefits of the ERT and surge support include: (a) strengthening humanitarian actions, (b) building skills and experiences across the organization for application in future humanitarian action, and (c) informing refinements to UNICEF procedures, guidelines and staff training for actions in humanitarian environments based on feedback from ERT members following their deployment.

B. Status of activities to strengthen controls in country offices with medium- and high-priority actions

41. As at 15 March 2017, OIAI had closed 69 per cent of the actions from the audit reports of country/area offices issued in 2016 for which implementation reports were due by that date. These country/area office actions are the result of

decisive country/area office management and the support and oversight of the regional offices.

42. The office has informed management that action status reports were provided by audited offices in a timely manner in 2016. The introduction by OIAI in 2016 of an automated follow-up mechanism on open audit recommendations, the inclusion of open-audit-recommendation monitoring in the Country Office Performance Scorecard, and the assignment of DFAM to monitor the implementation status of recommendations have contributed to the timely responses by audited offices.

43. Regional offices continue to regularly participate in audit exit meetings, onsite or remotely, to obtain a first-hand understanding of identified issues and to assist country offices in developing practical action plans. The implementation status of agreed audit actions is among the key performance indicators in the Country Office Performance Scorecard, and the status of a country office's scorecard is an important reference in the annual performance assessment of UNICEF Representatives as part of ACHIEVE. The scorecard provides information on all open audit actions for each country office and highlights any audit actions that have remained open for more than nine months. Monitoring the status of all indicators in the scorecard is an established accountability of all Representatives, Regional Directors and Directors at headquarters locations.

44. In 2016, all regional offices implemented numerous results-based management training sessions in their respective regions, which were led by trained facilitators from the regional and country offices as well as selected consultants.

45. In the MENA region, 70 per cent of the agreed actions from the 2016 audits of the country offices in the Islamic Republic of Iran (moderately-qualified) and Iraq (adverse) were closed by 15 March 2017. The report on agreed actions from the audit of donor funded projects in the State of Palestine (moderately-qualified) was not due as at 15 March 2017. In addition to the results-based management training, MENA supported training actions for priority country/area offices — including Iraq — in areas including procurement, construction contract management and HACT in complex high-threat environments. Ethics training was conducted for the regional office and the Jordan Country Office. These two offices also participated in fraud-awareness training conducted by a bilateral agency. The regional office plans to adapt the training and implement it in other offices in the region. In 2017, planned staff training includes continued procurement and contracting services, and supply monitoring. In 2016, the regional office supported the Iraq Country Office to fill a number of long-vacant international posts, and conducted several programme and operations support missions to the office.

46. In WCAR, 85 per cent of the agreed actions from the 2016 audit of the country office in Gambia (unqualified) were closed by 15 March 2017. The reports on agreed actions from the audits of the country offices in Guinea (strongly-qualified) and Chad (adverse) were not due as at 15 March 2017. In 2016, the regional office in West and Central Africa initiated interdisciplinary peer-support missions between country offices to share good practices and identify areas for improvement. The peer-support missions will continue in 2017, including to the country offices in Chad and Guinea, which are also receiving support from the regional office. The regional office is devoting expanded attention to ethics training in country offices, using a case study from a country office in the region.

47. In the Eastern and Southern Africa region (ESAR), 52 per cent of the agreed actions from the 2016 audits of the country offices in South Africa (moderately-qualified) and Burundi (moderately-qualified) were closed by 15 March 2017. The reports on agreed actions from the audits of the country offices in Ethiopia (moderately-qualified) and Swaziland (strongly-qualified) were not due as at

15 March 2017. The regional office engages with all country offices at the start of each year to exchange and review draft workplans that systematically include attention to any open audit recommendations. Actions include peer-support missions between country offices; seven such missions were conducted in 2016 and seven more are planned for 2017. Particular attention is devoted to risk management in all offices, and in 2017, to Swaziland, so that the office can strengthen the control issues identified in the audit report.

48. In EAPR, all agreed actions from the 2016 audit of the Indonesia country office (moderately-qualified) were closed by 15 March 2017. The report on the five agreed actions from the audit of the country office in Lao People's Democratic Republic (moderately-qualified) was not due as at 15 March 2017. The regional office is strengthening risk management practices among staff in the region, with attention to an ethical office culture and fraud awareness and prevention. The regional office expanded its technical support capacity for country offices in 2016 with the establishment of posts for data and statistics, and business analysis.

49. In South Asia, the reports of agreed actions from the audit of the country offices in Sri Lanka (moderately-qualified) and Afghanistan (strongly-qualified) were not due as at 15 March 2017. Working with the Supply Division, in 2016 the regional offices in East Asia and the Pacific and South Asia implemented a two-region staff training on supply and logistics management. The South Asia Regional Office continues to conduct ethics training sessions as part of the human resource support provided to all offices in the region. The OIAI investigation actions undertaken in Pakistan in 2016 were triggered by the country office.

50. In the Latin America and Caribbean region, the report on the 12 agreed actions from the audit of the country office in Colombia (moderately-qualified) was not due as at 15 March 2017. The regional office supported the development of nine new country programmes in 2016, with consideration of programme actions and efficient management plans and staff structures. Several country-support missions were undertaken to support the implementation of the audit recommendations and further strengthen internal controls. In 2017, the regional office is working with the Supply Division to strengthen skills in service contract management in country offices.

51. In the Central and Eastern Europe and the Commonwealth of Independent States region, all agreed actions from the 2016 audit of the country office in Tajikistan (unqualified) were closed by 15 March 2017. The reports on the nine agreed actions from the audits of the country offices in Bosnia and Herzegovina (unqualified) and Bulgaria (unqualified) were not due as at 15 March 2017. In 2016, the regional office established a long-term agreement with an external firm to support ethics oversight, and established a practice for review and clearance of all contract or partnership agreements from country offices that exceed $500,000. The new practice was introduced in response to the significant increase in the number and value of transactions in several offices in the region as a result of the refugee and migrant crisis in Europe.

V. Management actions and plans to address the recommendations regarding headquarters and systems audits, advisory services, and inter-agency audits

Audits undertaken prior to 2016

52. The OIAI 2016 annual report notes that five agreed actions remained open for more than 18 months at the end of 2016 (compared to 18 agreed actions outstanding for more than 18 months at the end of 2015). The five agreed actions are directed

towards headquarters functions. As at 31 March 2017, OIAI had closed three of the five agreed actions. The status of each agreed audit action outstanding for more than 18 months at the end of 2016 is presented in the annex to this management response.

Audits undertaken in 2016

53. In 2016, OIAI issued four reports of audits of headquarters functions and systems, and thematic subjects.

(a) **Procurement of Programme Supplies by Supply Division for delivery to Country Offices:** As noted by OIAI, the audit addressed governance, risk management and controls for the procurement of programme supplies for country offices. The audit report was issued in May 2016 with a moderately-qualified conclusion and 11 agreed actions — 2 of which were rated as high priority. Seven actions were closed by OIAI as at 31 March 2017 and the other four are being addressed.

(b) **Programme Division:** As noted by OIAI, the audit covered governance and partnerships, technical assistance and the programme support functions of Programme Division. The audit report was issued in August 2016 with a moderately-qualified conclusion and 17 agreed actions — five of which were rated as high priority. The action report was not yet due to OIAI as at 15 March 2017, but management is informed that actions are under way, and notes that the key agreed actions are linked to the development of the Strategic Plan, 2018-2021 and the associated office management plans, actions for which are under way.

(c) **Management of other resources:** As noted by OIAI, the audit covered a wide range of other resources management processes — from the development of contribution agreements through to closure of expired grants. The audit report was issued in August 2016 with a moderately-qualified conclusion and 18 agreed actions — 4 of which were rated as high priority. Of the four high-priority recommendations, one has been closed by OIAI, one has been implemented but not yet confirmed closed by OIAI, and the remaining two are in progress.

(d) **ICT Infrastructure and Disaster Recovery Planning in Field Offices:** This audit covered the management of information and communications technology infrastructure and disaster recovery planning in field offices. This report was withheld from disclosure, in conformance with the criteria outlined in Executive Board decision 2012/13.

Advisory services

54. Management continues to value the guidance on risks and controls that the advisory work undertaken by OIAI provides. In 2016, the office conducted several advisory services in a number of areas of UNICEF work and issued one report to the Division of Private Fundraising and Partnerships, which the division is using in the development of the PFP management plan, 2018-2021. Management is particularly encouraged by the advisory support on fraud deterrence and identification provided by OIAI in 2016 to two offices, and by the OIAI plans to broaden this form of advisory support to other offices during audits and investigations.

Inter-agency audits

55. Management notes that in 2016 OIAI collaborated in three inter-agency audits to address common risks for pooled funding, the "Delivering as one" initiative and operations of the Central Emergency Response Fund.

VI. Management actions to address the findings of investigations

56. UNICEF has a policy of zero tolerance for all forms of fraud and corruption and is fully committed to ethical practices. The organization strongly encourages reporting of misconduct and protects staff from all forms of harassment or reprisals for whistle-blowing. The Executive Director issues an annual memo to all staff at mid-year to report the actions taken by UNICEF during the previous year to address proven wrongdoings by staff. This was done in 2016, and the 2017 memo will be issued by mid-year.

57. The annual report of the Ethics Office of UNICEF for 2016 to the Executive Board provides information on actions taken during the year by the Ethics Office to further strengthen UNICEF staff skills to identify issues of ethical choice and to take appropriate action. Management has continued to prioritize efforts to further strengthen prevention and response to sexual exploitation and abuse, both in inter-agency and agency-specific efforts. Inter-agency efforts include:

(a) Contributing to the United Nations Secretary-General's new system-wide sexual exploitation and abuse strategy, with ongoing engagement in the development of practical tools under the United Nations working group on sexual exploitation and abuse;

(b) Leading the development, together with the United Nations Conduct and Discipline Unit, of a United Nations-wide protocol on providing assistance to victims of sexual exploitation and abuse, with ongoing work in field-testing the protocol;

(c) Contributing to the development of the Inter-Agency Standing Committee global standard operating procedures for community-based complaint mechanisms for sexual exploitation and abuse, with ongoing work to roll out related tools in the field;

(d) Facilitating collaboration with the United Nations Population Fund, the United Nations Development Programme, the Office of the United Nations High Commissioner for Refugees and the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) to adapt the United Nations Secretariat's online training on the prevention of sexual exploitation and abuse for use by the funds and programmes. The online training is expected to be launched in UNICEF in 2017; and

(e) Contributing to the drafting of a uniform protocol on the sharing of information and protection of victims of sexual exploitation and abuse, together with the Office of the United Nations Commissioner for Human Rights, which is pending finalization.

58. UNICEF has also strengthened internal mechanisms for protection from sexual exploitation and abuse, including:

(a) Supporting the scale up of assistance to victims of sexual exploitation and abuse, which includes medical care, psychosocial support, legal assistance, a safety plan, access to school and material assistance as needed. Additional resources were allocated for victim-assistance interventions;

(b) Strengthening the capacity of OIAI to conduct child-sensitive investigations of allegations of sexual exploitation and abuse, with five staff newly trained on child-friendly interviewing techniques;

(c) Strengthening the organizational policy framework through the issuance of a Policy on Conduct Promoting the Protection and Safeguarding of Children on 1 July 2016 (CF/EXD/2016-006);

(d) Implementing new standard terms and conditions for contracts with vendors, which include prohibitions related to sexual exploitation and abuse by vendor personnel, aligned with the contract provisions used by the United Nations Secretariat;

(e) Revising current recruitment procedures to now require that all candidates seeking appointment with UNICEF disclose if they have been investigated, charged or sanctioned for misconduct (which includes sexual exploitation and abuse). A proven allegation of sexual exploitation and abuse will be grounds for disqualifying a candidate;

(f) Continuing implementation of the UNICEF sexual exploitation and abuse internal alert and response protocol, which is in line with United Nations-wide real-time reporting of allegations of sexual exploitation and abuse. Management updated UNICEF Member States in a February 2017 informal consultation on the status of the UNICEF/United Nations response to allegations of sexual exploitation and abuse by United Nations peacekeeping forces, in follow-up to an informal consultation held in 2016.

59. A dedicated Investigations Unit in OIAI carries out investigations in accordance with the Uniform Principles and Guidelines for Investigations, and in conformity with due process principles, as laid out in chapter X of the United Nations Staff Regulations and Rules. The established channels, including a dedicated e-mail address that allows users to remain anonymous, (integrity1@unicef.org), are being used to bring concerns and allegations of wrongdoings to the attention of OIAI.

60. Management notes that 72 allegations received in 2016 were found to constitute sufficiently serious suspicions of wrongdoing, compared to 90 in 2015. In addition, 41 allegations were carried over from the previous period, making a total of 113 cases managed in 2016. The office closed 71 of the 113 cases in 2016 and carried 42 forward to 2017.

61. Management continues to note with appreciation that OIAI assesses all allegations and investigates those that it believes warrant additional consideration. Management notes with appreciation that most cases are addressed in a timely manner as OIAI reports that 73 per cent of the cases closed in 2016 were finalized within nine months of receipt of the allegations. Management notes that the pace of case resolution slowed somewhat in 2016, when 63 per cent of cases were closed compared to the previous year when 71 per cent of cases were closed. Management has been informed by OIAI that this is due to the complexity and late-year intake of some cases in 2016.

62. The majority of the 72 new investigation cases in 2016 consisted of fraud involving misuse of programme funds by third parties (12 cases); corruption, bribery and kickbacks (12 cases); inappropriate staff conduct (10 cases); and burglary, robbery or theft of UNICEF funds or property (8 cases).

63. Management notes the increase in allegations of corruption, bribery and kickbacks in 2016 compared to 2015, and appreciates the attention that OIAI is devoting to investigating such allegations, analysing potential linkages between inappropriate staff actions and allegations of misuse of programme funds by third parties, and providing advisory support to offices to strengthen controls and awareness of red flags to minimize the potential of inappropriate actions. Management appreciates and encourages the increased attention to fraud prevention and detection that OIAI describes in its planned strategic road map for 2018-2021.

64. As OIAI reports, of the 71 cases closed last year, 25 were closed as the allegations could not be substantiated, 8 were closed following management actions on minor issues taken by the affected office, and a further 4 cases were closed as the allegations were withdrawn. Five cases were closed due to the resignation or retirement of the staff member under investigation. Management notes that when a staff member leaves the organization before an investigation is completed, the Staff Rules provide for UNICEF to recoup proven losses from the staff member's final payment. None of the resignation/retirement cases closed involved a financial loss to the organization.

65. Management takes note of the geographic origination of allegations in 2016, with 31 per cent coming from WCAR, 27 per cent from ESAR and 11 per cent from South Asia.

66. UNICEF pursues and seeks recoveries of all identified financial losses and notes the Executive Board's concern in decision 2016/8 to maintain diligence in seeking recoveries. All losses are pursued and recovery actions are regularly monitored. In 2017, UNICEF will complete and apply an enhanced anti-fraud strategy to further strengthen deterrence, prevention and detection, and refine accountability for the management of fraud risk, remedial actions and recoveries. Management continues to strengthen the mechanisms for the provision of programme funds to implementing partners through HACT, as reported in paragraph 28 above.

67. Of the $790,095 in losses identified in 2015, UNICEF recovered an additional $226,021 in 2016. Recovery actions continue, including a case referred to local authorities for a loss of $357,324 by unknown persons for which the potential for recovery is now deemed to be limited.

68. The potential losses identified in closed investigation cases in 2016 was $1,223,860. Included in the total amount lost due to fraud involving the misuse of programme funds by third parties was a single loss of $803,551 in Somalia. A single loss of $180,798 in Pakistan due to gross negligence was referred to the Division of Human Resources (DHR), and the concerned staff members were dismissed. Recovery actions have not yet been initiated as this is a complex case, but UNICEF will consider legal action to recover the losses in 2017. Management appreciates that in Somalia, OIAI supplemented the investigation with advisory support to strengthen the office's practices in the selection, assessment and monitoring of programme partners. However, recovery of the loss that resulted from the fraud is highly unlikely given that the third party no longer exists as an entity and the diverted funds cannot be traced. Among the cases closed in 2016, UNICEF made recoveries amounting to $114,124 in 2016, and efforts continue with regards to recovery of the balance.

69. Twenty-two cases investigation were submitted by OIAI to the Policy and Administrative Law Section, DHR in 2016, and 17 of these cases were closed by 31 December 2016 through actions that included a summary dismissal, separations, loss of grade, and loss of salary step. For the five cases with DHR that remained open at the end of 2016, actions in 2017 resulted in three dismissals and two demotions.

VII. Management actions to address the concluding observations in the UNICEF Audit Advisory Committee annual report for 2016

70. UNICEF management continues to appreciate the important contribution of the AAC to the effective and independent oversight of the organization. As noted in

the AAC 2016 annual report to the Executive Board, the committee members regularly interacted with the Deputy Executive Director (Management) and other senior managers, and met with the Executive Director during the year.

71. UNICEF management notes and appreciates the active engagement of the AAC in management actions to address major organizational issues, including: accountability and results-based management, enterprise risk management, the GSSC, HACT management, innovations and information technology; and the opportunity to brief the committee and discuss these issues in AAC meetings.

72. Management appreciates the committee's consideration of the wide range of the organization's assurance functions, including the Ethics Office, the Evaluation Office, and OIAI. Management notes the consultations the AAC had with the United Nations Board of Auditors in 2016.

73. Management also notes the assessment and advice the AAC provided in its 2016 annual report, including the assurance that OIAI had implemented the recommendations from the 2013 external quality assurance review. Management has given careful consideration to the 2016 AAC report and is addressing the suggested actions in the drafting of the Strategic Plan, 2018-2021 and the associated four-year office management plans for headquarters functions.

Annex

Progress update on audit recommendations that remained unresolved for more than 18 months as of 31 December 2016

Agreed action in the OIAI 2016 annual report	*Progress update*
Audit of the Public Sector Alliances and Resource Mobilization Office (PARMO), issued December 2013 (two recommendations)	
One recommendation pertains to the Office of the Executive Director (OED) agreeing to issue an Executive Directive stating the strategic vision and implementation framework for the UNICEF resource mobilization function, and outlining the roles and responsibilities assigned to the Public Partnerships Division (PPD) and other UNICEF organizational units.	**Planned actions to address this recommendation have been reported to the Office of Internal Audit and Investigations (OIAI) in March 2017.** Senior management is closely engaged in addressing these recommendations and all outstanding actions will be completed by June 2017 within the context of drafting the Strategic Plan, 2018-2021 and associated four-year headquarters management plans.
One recommendation pertains to OED agreeing to establish a strategy and requirements to improve the quality and timeliness of donor reports at the global level and clarifying the responsibilities of PPD and regional offices regarding oversight and support on donor reporting.	**Planned actions to address this recommendation have been reported to OIAI in March 2017.** Senior management is closely engaged in addressing these recommendations and all outstanding actions will be completed by June 2017 within the context of drafting the Strategic Plan, 2018-2021 and associated four-year headquarters management plans.
Audit of the South Asia Regional Office, issued August 2014 (one recommendation)	
One recommendation pertains to the Division of Data, Research and Policy, together with the Division of Financial and Administrative Management (DFAM), revising its guidance for the preparation of regional office management plans, and to include in the integrated results and resources matrix the requirement to define the means of verification, including the definition of indicators and sources of information. This agreed action will also cover the office management plans of headquarters divisions and country offices.	**Closed.** The agreed action was closed by OIAI in March 2017 following the demonstration of completion by management.
Audit of Payroll Management in UNICEF, issued September 2014 (two recommendations)	
One recommendation pertains to DFAM, together with the Division of Human Resources (DHR), clearly defining the responsibilities for follow-up, recovery and request for write-off of unrecovered amounts related to personal advance and recovery accounts; and reviewing and reinforcing the processes to recover staff overpayments or write off unrecoverable advances.	**Closed.** The agreed action was closed by OIAI in March 2017 following the demonstration of completion by management.

Agreed action in the OIAI 2016 annual report	*Progress update*
One recommendation pertains to DFAM, in collaboration with DHR, the Information Technology Services and Solutions Division (now the Information and Communication Technology Division) and regional offices, reviewing and developing robust oversight and processing mechanisms/solutions to address payroll funding shortages; and to monitor, reconcile and account for all payroll funding reallocations and repayments between other resources grants, and between regular resources and other resources grants, highlighting the responsibilities of headquarters divisions, and country and regional offices (including quality assurance reviews).	**Closed.** The agreed action was closed by OIAI in March 2017 following the demonstration of completion by management.